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June 8, 2007

The Honorable Charles Terreni
Chief Clerk of the Commission
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: "The Missoula Plan" NDI-2007-1-C/S.C. Public Service Commission's request for written comments of Verizon South, Inc. at May 31, 2007 Workshop

Dear Mr. Terreni:

After the May 31, 2007 workshop on the Missoula Plan, Verizon South Inc. received a request to file a copy of its presentation. As requested, a copy of the presentation is enclosed.

If you should have any questions concerning this matter please contact my office.

With kind personal regards, I am

Sincerely,

Steve W. Hamm
C. Jo Anne Wessinger Hill

Enclosures

Verizon South Inc.
Missoula Workshop Comments
May 31, 2007

1. General Concerns with the Missoula Plan

   a. The telecommunications industry is making a transition from the old world of traditional voice service provided over circuit switched networks to the new world of multiple services offered over IP platforms provided by telephone wireline, wireless, cable and other companies.

   b. The Missoula Plan ("Plan") looks to the past, focusing on the exchange of traffic between circuit-switched networks. Regulators need to make sure that any new intercarrier compensation scheme does not impede investment in next generation networks. Unfortunately, that is what the Plan would do.

   c. The Plan is inordinately complex, weighing in at 111 pages, with different rules for different carriers. The rules would overhaul well-established interconnection terms and conditions and require the renegotiation of most interconnection agreements.

   d. Complexity breeds litigation and uncertainty. Parts of the Plan are pre-emptive and almost certainly would be challenged in court. Other parts are left to the states' discretion, inevitably leading to a lack of uniformity.

2. Specific Concerns with the Plan

   a. The Plan would increase the disparity between Track 1 rates and Track 2 and 3 rates.

      (i) Track 2 and 3 carriers' target interstate rates would be 16 times the target rates for Track 1 companies, while the intrastate target would be 34 times higher. Track 3 reductions would be voluntary for 3 years, with no guarantee they would be mandatory after that.

      (ii) The result would be that even when there is a balance of traffic between a Track 1 carrier and a Track 2 or Track 3 carrier, the Track 1 carrier would have a net balance due. In South Carolina, Verizon South Inc. would be treated as a Track 1 carrier because it is part of the national company, and thus would be at a disadvantage against the Track 2 and Track 3 carriers it competes against. This wide disparity also perpetuates very large subsidies from Track 1 carriers to Track 2 and 3 carriers, which distort the competitive marketplace.

(iii) Another result of the rate difference would be the creation of an arbitrage opportunity. For example, carriers might route traffic through a Track 3 carrier to make it appear to be subject to the Track 3 carrier's access charges.

b. The Plan provides less reimbursement to Track 1 companies than Track 2 and 3 companies.

(i) Track 1 companies generally could increase the current \$6.50 SLC by \$3.50 (for a total of \$10) to make up for access reductions. This compensation mechanism ignores the market reality in most non-rural areas that prevents such price increases from being sustained. Competition would punish that kind of increase.

(ii) The Plan provides that if the SLC increase is insufficient, a carrier may draw from the Restructure Mechanism, but a Track 1 carrier would be considered to have received the full \$3.50 from the SLC, regardless of whether it actually increased the SLC that much.

(iii) Track 2 and Track 3 carriers generally could increase the \$6.50 SLC by \$2.25 (for a total of \$8.75). Because their SLC would be lower and they would serve in the areas where a price increase might be more readily sustained, they would stand in a better position to receive full reimbursement from the Restructure Mechanism.

c. The Plan would change well-establish interconnection rules.

(i) The Plan would require an originating carrier to deliver traffic to the edge of the terminating carrier's network.

(ii) For a carrier like Verizon, that change would result in traffic being delivered to its tandem rather than a subtending end office.

(iii) That change would create incentives for large scale network rearrangements. Verizon estimates the cost to it alone could be \$500 million, which would have to be diverted from investment in its next generation network.

d. The Plan would change how Extended Area Service ("EAS") traffic is handled.

(i) Most local traffic between ILECs is exchanged today on a bill-and-keep basis. The Plan would allow Track 2 carriers to charge reciprocal compensation on traffic that is EAS today.

(ii) The Plan also would create an incentive for Track 3 carriers not to renew their EAS agreements because they would then be able to charge their interstate access rates. This change would create major new reciprocal compensation expenses and require Track 1 carriers to measure large amounts of traffic that are not measured now.

e. Because the Plan does not unify rates, a mechanism still would be necessary to distinguish between long distance and local calls. The Plan would make the distinction entirely based on the calling and called numbers.

(i) That approach effectively endorses virtual NXX, which would allow carriers using virtual NXX to evade paying the appropriate level of intercarrier compensation.

(ii) It would require large investment in system changes, especially for wireless carriers. Today, whether a wireless call is considered local or long distance depends on the physical location of the customer, and the systems of wireless carriers are designed on that basis. The Plan would require that new recording and billing systems be developed.